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OSA 4423-64

28 August 1964
FRC K-13-241

Dear Hazel:

Subject: FL-4004 - Spares Contract

Reference: a) Message of 23 July 1964 - Number 0938
b) Message of 15 June 1964 - Number 8789

In compliance with your message of 23 July 1964, reference (a), we have reviewed the subject contract, specifically with respect to the G and A and profit allocated to the Fixed-Price Kearfott gyros.

During the negotiation of this contract on 6 June 1964, we were advised by Art that it was his opinion that these Kearfott items should be considered using the major subcontractor G and A rate of and without profit. This opinion was not accepted at that time by Gil, who stated he would have to present Art's position to our management.

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The use of the major subcontractor G and A rate in lieu of our general G and A rate is predicated upon an agreement with our Principal Administrative Contracting Officer in Minneapolis. This agreement defines a major subcontractor as follows:

"A major subcontractor is defined as a member of the Contractor team working under the guidance of Minneapolis-Honeywell Regulator Company as Systems or Sub-Systems Manager."

In this instance, Kearfott, as a component manufacturer, does not qualify as a major subcontractor. The use of the lower G and A in this case would probably result in final costs exceeding our selling price as our Government auditor could, and quite properly should, allocate G and A dollars to this item at the higher rate on the basis that we had violated our agreement. In order to comply with this agreement we must price these items using the rate.

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Concerning the allocation of profit in the determination of this contract price, it must be remembered that a Contractor must receive a certain return from his contracts in order to continue in business. Policies are established in the pricing procedure in order to provide for this return. This contract has been priced in accordance with our normal

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policies concerning the allocation of profit to the various elements. If we are faced with having to allocate no profit to certain elements, we must of necessity change our policies concerning allocation to the other areas.

In the interest of bringing this negotiation to completion rather than permitting it to continue beyond what is already a lengthy delay, STATOTHR submitting herewith our revised proposal in the amount of [redacted] which reflects a reduction in profit on the fixed price elements from [redacted] STATOTHR. For your guidance in evaluating this total contract value, we have enclosed the attached Exhibit I.

Very truly yours,

STATOTHR

FHH:dh

Encl. -
Exhibit I

STATOTHR

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